THE NATIONAL CITY BANK OF NEW YORK

1916

U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

NEW YORK, MARCH, 1916.

General Business Situation.

THERE is no slackening in the demand for goods or signs of weakness in the general business situation, although there is no little complaint of annoyances incidental to its rapid expansion. Nearly every line of industry is hampered by scarcity of supplies of some kind, and the whole situation is complicated by car shortage and congestion at the railway terminals. Prices are being pushed upward, but profits are uncertain to manufacturers unless they have covered their requirements for raw materials. The industries working upon war supplies have been drawing labor from other lines and affecting the entire wage situation. The rise of wages in the cities also attracts men from the farms and threatens to make the problem of agricultural help more acute. Ordinarily periods of prosperity stimulate immigration, but no relief from that source is possible while the war lasts, and the proponents of an educational test for immigrants are citing the war as a reason why Congress should pass their measure a third time, it having been vetoed by Presidents Taft and Wilson. Of course high wages that signify a permanent condition of prosperity are to be welcomed, but changes that are due to temporary conditions, and which disorganize permanent industries, may cost the wage-earners more than they come to.

The copper-mining industry has solved this problem harmoniously by means of a sliding scale of wages based on the price of copper. This agreement has been in effect for some years and works satisfactorily within the industry, but it does not prevent dissatisfaction in neighboring industries, which are not favorably affected by the war conditions. It is estimated that on the same output, but at the present level of prices, the copper product of the United States will bring $200,000,000 more in 1916 than it did in 1915.

Railroad traffic, despite the difficulties due to congestion, is making new high records. Returns from practically all of the mileage show gross earnings in December of $286,148,788, as against $223,358,512 in December of 1914. Of course the net results of a full business are still more notable, being $99,513,498, as against $56,657,780, or about 75 per cent. The gross receipts for the calendar year were $3,053,664,661, or 4.6 per cent. over 1914; net operating earnings were $955,664,313, or 25.5 per cent. over 1914. It should be remembered in this connection that expenditures upon the roads were reduced last year in the most drastic manner, and that they cannot be held down to this level permanently. Roads that are well kept up can go for a year or so with comparatively light expenditures for maintenance, but in the long run the expenditures must be made. No doubt there will be more liberal appropriations in 1916.

Two important events occurred in the steel industry during the month, which resulted in the disappearance as independent factors of two well known concerns, the Cambria Steel and Iron Company, which was absorbed by the Midvale Steel and Ordnance Company, and the Pennsylvania Steel Company, which together with its subsidiary the Maryland Steel Company, was taken over by the Bethlehem Steel Company. Both the Midvale and Bethlehem Companies had been developed largely as ordnance companies, and their new acquisitions will broaden their activities. New business continues to accumulate with all the steel companies, and prices are advancing very rapidly. According to the *Iron Age*, the average price of eight staple steel products was $49.10 per ton on February 23rd, compared with an average in January of $43.81. In January, 1915, the average was about $30, which was below normal. The previous high average for the same products in the last eleven years was $40.81 in May, 1907.

All of the industries making goods for the consumptive trade are actively employed, and building material manufacturers, including lumber, are looking for a good spring business.

The farmers have marketed most of their 1915 crops, and at better prices than seemed probable when they were harvested. This is particularly true of wheat, which started off in July last under unfavorable conditions. The scarcity of shipping has made the situation very uncertain, but seems to have worked to the advantage of American and Canadian wheat, as against South America and India, on account of the shorter voyage. The relative cost of moving wheat to English ports now and in ordinary times is given below:

	Feb., 1916.	Feb., 1915.	Feb., 1914.
United States, bu.	$0.58¾	$0.24⅜	$0.06½
Argentina, bu.	1.08	0.43¼	0.09½
India, bu.	0.90	0.14½	0.12

Wheat has touched $2.00 per bushel in Liverpool this winter, which is considerably higher than at any

time last year, although the price in the United States has not reached the high point of last year. The price in American markets is now about 22 cents under that of a month ago. The income of the wheat-growers under the last two crops has been unprecedented, but the outlook for 1916 at this writing indicates a smaller yield. The acreage is ten per cent. under last year's and the plant is reported in poor condition over a large part of the winter field.

The cotton market has shown weakness during the past month, the near deliveries ranging down to nearly 11 cents. The exports of cotton from August 1st to January 31st last, were 2,960,958 bales against 3,979,347 bales in the corresponding period of the previous year. The consumption of cotton for the same six months of this year was 3,074,654 bales against 2,589,880 bales in the same period of the previous year. The prospect for prices evidently depends upon two events, both very uncertain at this writing, to wit: whether or not the war will end before the next crop is sold, and the size of the crop. There is evidently a temptation for the planter to gamble on peace, which whenever it comes, will certainly advance cotton. On the other hand the sober counsel must be for the South to continue to raise its own grain, hay and all supplies. Along that line it will find permanent prosperity.

Cattle are bringing fair prices, hogs very good and sheep high prices. The Government's estimate of live stock on farms on January 1, 1910, was 47,782,000 hogs, 69,080,000 cattle and 57,216,000 sheep. On Jan. 1, 1916, the Government gives 68,047,000 hogs, 61,441,000 cattle and 49,162,000 sheep on farms. This shows 20,265,000 more hogs on farms this year than in 1910, but 7,639,000 less cattle and 8,054,000 less sheep. Notwithstanding a severe winter over the northern range country stock is said to be coming through in good condition.

The Financial Situation.

The money market remains practically unchanged as to rates, although there can be no doubt that an absorption of funds is in progress over the country, and there are reasons for thinking that the present state of ease will not last throughout the year. Loans are rising, as shown by bank reports to the Comptroller and by the Clearing House statements, and the expansion of domestic business, higher commodity prices, the situation in security markets and the necessities of our foreign trade, all forecast further demands upon our banking resources.

The comptroller's statement of the condition of all national banks on December 31st last shows that their loans had increased since December 31st, 1914, by $1,010,000,000, of which not quite $700,000,000 was in New York City. A considerable portion of these loans undoubtedly are upon securities, and more of this class will have to be made.

A call has been made upon the depository banks holding the proceeds of the $500,000,000 Anglo-French loan for fifteen per cent of the same, which indicates that the disbursement of this fund will be soon completed. The British government is energetically pushing its campaign for gathering the British holdings of American securities into its possession. The *London Times* of recent date states that this effort has been very successful, the government committee's purchases having been about three times as large as originally anticipated. These purchases are made with the express intention of using the securities for the creation of new credits in New York, either by sale in this market or by borrowing upon them. In either case the undertaking has an important bearing upon the situation here.

All comments in London upon the financial aspects of the war show an expectation that the necessary funds will be, to a great extent, supplied by realizing upon British holdings of foreign securities, and this is the only market in which realization on any important scale can take place.

These securities for the most part consist of the choice issues of railway bonds, which have been accumulated by well-advised British investors and they are coming back to this country at a level of prices below what they have commanded in the past. It is highly desirable that they shall be acquired, and especially so since they will be offered for the purpose of supporting sterling exchange, thus facilitating the export movement of our products.

The bond market is in excellent shape to take these offerings. The country is accumulating capital faster than ever before and there is a steady investment demand with little new financing in sight at home. If the British government can sell its holdings outright without loss presumably this course will be preferred, otherwise it will probably desire to borrow. Of course these securities will not be finally disposed of so far as this market is concerned until they rest in the hands of investors and are paid for. Until then they will be an influence in both security and money markets.

With the opening of spring many new activities will be released, and the demand for money and credit will be larger. If the interior banks find it necessary to replenish their cash reserves from New York the situation in the money market may change speedily.

Bond and Stock Market for February.

The bond market during the month of February, as reflected by the volume of sales on the New York Stock Exchange, has been less active than in January, or the latter part of 1915. The average daily transactions to the close of business February 23rd, have been $3,661,500. compared with $4,621,900 in January and $4,635,000 in December, 1915. Sales have shown a tendency to decrease in the latter half of the month, but the volume of business is still largely in excess of a year ago. The general level of prices has fluctuated within narrow limits. The average price of 40 active bonds, as compiled by the New York *Times*, on February 23rd, was 87.04, compared with 87.07 on the first instant. During the early part of the month the average rose to 87.35. The real investment demand for the high grade issues has remained active and the prices for such bonds have been firm.

Anglo French 5's have been the most active issue

on the Exchange, as was the case in January and December. The daily sales for these bonds have averaged during the month over $600,000. This large issue is gradually being absorbed by investors. The E. I. du Pont de Nemours Company has just adopted a new policy by distributing $11,182,300 Anglo French bonds as a special dividend upon its Common Stock.

Imperial Japanese Government 4½'s, while not as active as the above bonds, have been in good demand and have advanced in price. Japan reports a superabundance of funds, due to large exports principally of munitions to Russia. The Government has found it possible to raise capital by internal borrowing, applying the proceeds to the redemption, prior to maturity, of short time issues in London and Paris.

International Mercantile Marine Collateral 4½'s have also been very active, reflecting various developments attending the reorganization of the Company. New York Central Debenture Convertible 6's still remain one of the favorite issues with investors and traders. New York Railways Company Adjustment Income 5's have been actively traded in, in anticipation of the 3.2% distribution from earnings for six months to December 31, 1915.

Several new issues have been offered during the month, and have been well taken, indicating strong investment buying. The largest bond offering has been the $50,000,000 Midvale Steel & Ordnance Company twenty-year 5% Collateral Trust Bonds. These bonds, which are convertible into stock at $100. per share, par $50., were offered to the public at 99. The bonds represent the only funded debt of the Company, and are secured by the acquired stock of the Cambria Steel Company. The issue was largely over-subscribed.

New York banking houses have purchased $18,-500,000 one-year 5% Notes of the Government of the Argentine Nation. The notes have been offered on a 4.70% basis. Including this loan, the Argentine has borrowed $64,500,000 in this market since the outbreak of the European war. Loans to the South American countries were formerly sought in Europe.

Sales on the exchange during February have declined in the last few days, compared with the first of the month. The average daily transactions for the first 9 days of the month were 505,246 shares, against 460,000 shares for the last nine days. In January the daily average was 547,949 shares. Railroad stocks have generally declined a small fraction, while industrial issues have shown the opposite tendency. Copper issues have been firm on account of the very high prices for the metal. Canadian issues, especially Canadian Pacific, have been very heavy, due to the prospects of additional war taxes on the profits of Canadian corporations.

Wage Controversies.

The conference between mine operators and their employes for the settlement of the terms of employment in the anthracite and bituminous coal mines after April 1st next is now being held in New York. The differences between them are very considerable, but both sides seem to have approached the meeting in a conciliatory spirit, and, what is particularly gratifying, with recognition of the public interest in an amicable adjustment.

The meeting of railway managers with the heads of the railway orders, to consider the demands of the latter, is awaited with more than ordinary concern, on account of the enormous possibilities for mischief that lie in a disagreement. The heads of the orders have lately given out denials of having taken a decisive position against arbitration, but it is known that they were much dissatisfied with the results of the last arbitration and have talked freely of their unwillingness to submit to another.

In terms, their demand is simply for an eight-hour day, but the managers say that the conditions of railway operation are such that the hours on duty cannot be so restricted, and that the correlated demand for time-and-a-half for all over-time means a large increase of pay. The American Federation of Labor has announced its support of the demands.

These and other demands of employes upon employers are formulated and supported by labor organizations generally upon the theory that if granted the concessions will come from the profits of employers and that the general position of wage-earners will be improved. It is possible that there may be isolated instances where this is true, but it is certain that, taking the whole field of industry together, it is not true. Generally speaking, wages enter into the prices of the product, and unless counter-balancing economies are introduced, a rise of wages means that the public must pay more for the goods or services, and as the public is largely composed of wage-earners, the effect is to raise the cost of living on themselves. There is no real advancement or betterment of conditions in this.

It is true that there are classes which are not able to arbitrarily raise their own compensation, and it may appear that some advantage is secured over them. The farmers are such a class; but the effect of raising wages in the cities is to attract young men from the farms, and this raises the prices of farm products by reducing the output, and in this manner a readjustment works itself all around the circle.

This is not to say that a close organization of wage-earners, which is able, either by reason of the skill or knowledge required or by help of trade union rules, to have a practical monopoly of a certain employment, may not lift wages above the level for work of the same grade in other employments, but this is at the expense of other working people who must help pay these costs.

The miners who are now complaining of the cost of living, and asking to have their wages raised, will be affected adversely by higher freight charges upon coal or upon the goods they consume, and the railway men and all other classes of wage-earners will be unfavorably affected by higher costs for mining coal. Furthermore, when the advances have been made all around the circle, so that each class of workmen has gained enough to offset its own increased payments to the others—or, in other

words, when each has obtained enough to make good the rising "costs of living," the net result is likely to be that the United States will be too far above the level of costs abroad to sell its products in foreign markets. It is certain that under normal conditions abroad this situation would result in a curtailment of production here, and a state of slack trade and unemployment which would be costly to wage-earners.

The truth is that the only gains made which are not at the expense of other groups or classes are those which come from improvements in the methods of production and distribution. Wherever the product can be increased, or a saving can be accomplished in distribution, there is a chance for gain, either to producer or consumer, or both. During the last dozen years the average freight train load in the United States has been increased fifty per cent., effecting an important economy in the cost of transportation. Fair play would dictate that the railway owners who had the enterprise to invest the necessary money to achieve this, should have ordinary interest, and something more as an incentive, that the railway employes should be compensated for their share in it, and that the public should gain something. It is said that similar gains have been made in the coal industry, and if so it is desirable that a similar distribution occur there.

The most serious handicap upon industry is the rise in the prices of agricultural products which has occurred in the last twenty years, and which has made necessary a rise of wages in order that wage-earners might hold their own. Great efforts are being made by the Federal government, by some of the states, and by many private agencies and organizations, to disseminate a knowledge of better farming methods. It is hoped that increased yields per acre will reduce costs to the farmers and lower prices to consumers. If it comes out so, there will be a net actual gain to everybody, and this will illustrate the normal line of progress along which all efforts should be directed. There can be no question that if employers and employes would cooperate harmoniously with the purpose of first getting the largest possible production of every commodity of common use, and the best brains of the country would give attention to securing distribution in the most economical manner, the benefits would surprise them all.

Federal Revenues and Taxations.

Apparently, the problem of how to provide the revenues required to meet the estimated expenditures of the Federal government for the next fiscal year, has not yet been worked out to a point of agreement among the leaders in Congress. The war revenue act, which by its terms was to expire on December 31st, 1915, has been extended, and the duty of one cent per pound on importations of sugar, which by the terms of the Underwood act, would cease to be effective on May 1st, will be continued. The former is estimated to yield in the fiscal year 1917, $82,000,000, and the latter $45,000,000, but the Secretary of the Treasury calculates that $112,800,000 of additional revenue should be forthcoming in order to meet the increased expenditures upon the army and navy and maintain a working balance of $50,000,000 in the Treasury. The amount required is not much above $1.00 each for the inhabitants of the United States, which is not a formidable sum as compared with the taxes our neighbors in Canada and the peoples of Europe are called upon to pay, but it is no easy task to reach an agreement upon how it shall be raised. The President and Secretary of the Treasury have suggested certain specific taxes, upon steel products, gasoline, automobiles, etc., all of which are vigorously opposed by the people who would be directly affected, and who protest that the cost of national preparedness should not be put upon a few industries. In the past, resort has been had to a stamp tax on bank checks, but the use of bank checks has been popularized to a point where there is manifest reluctance to put any burden there. The proposal that meets with the smallest numerical protest is that to enlarge the application of the income tax and to increase the super-taxes upon large incomes.

The Income Tax.

The collections under the income tax have now been made twice, i.e., for ten months of 1913 and the full calendar year 1914. The amounts received under the several classifications of the law during the fiscal years 1914 and 1915 are as follows:

	1914	1915	Increase
Income tax, normal..	$12,728,038.02	$16,559,492.93	$3,831,454.91
Income tax, additional:			
Net incomes—			
$20,000 to $50,000..	2,934,754.40	4,106,673.36	1,171,918.96
$50,000 to $75,000..	1,645,639.30	2,500,890.33	855,251.03
$75,000 to $100,000..	1,323,022.61	2,102,927.01	779,904.40
$100,000 to $250,000..	3,835,948.45	5,945,104.55	2,109,156.10
$250,000 to $500,000..	2,334,582.95	3,328,423.78	993,840.83
Exceeding $500,000 .	3,437,850.23	6,439,004.54	3,001,154.31
Accepted offers in compromise, etc.	13,698.89	63,645.59	49,946.70
	$28,253,534.85	$41,046,162.09	$12,792,627.24

The total number of taxable incomes reported in the fiscal year 1915 was 357,515, against 357,598 in the fiscal year 1914.

The report of the Commissioner for Internal Revenue, from which the above figures are taken, also gives the number of returns for the taxable year 1914, classified as follows:

No. of Returns.	Classification According to Incomes		
82,754	3,000	to	4,000
66,525	4,000	to	5,000
127,448	5,000	to	10,000
34,141	10,000	to	15,000
15,790	15,000	to	20,000
8,672	20,000	to	25,000
5,483	25,000	to	30,000
6,008	30,000	to	40,000
3,185	40,000	to	50,000
3,660	50,000	to	75,000
1,501	75,000	to	100,000
1,189	100,000	to	150,000
406	150,000	to	200,000
233	200,000	to	250,000
130	250,000	to	300,000
147	300,000	to	400,000
69	400,000	to	500,000
114	500,000	to	1,000,000
60	1,000,000	to	and over
357,515			

These classifications are irregular and might be misleading if this fact was not observed. Thus a glance might lead to the conclusion that more people had incomes of from $5,000 to $10,000 than of any

other size, but if the two classes from $3,000 to $5,000 are consolidated the number is larger, although the classification is still much narrower. In fact the number of incomes in each class diminishes quite regularly in the higher classes. The number of incomes ranging from $3,000 to $20,000 aggregated 326,658, against 31,857 above $20,000; 2,348 above $100,000, and 174 above $500,000. The 174 people paid more than one-seventh of the total amount realized from the income taxes.

Dangers of Graduated Taxation.

The chief objection made to the graduated income tax when it was introduced was that it was a system which could be used with dangerous facility to serve all sorts of socialistic schemes for confiscating incomes and dividing up property. Aside from the object of raising the necesary taxes to support the present system of government, a considerable number of people unquestionably favor its constant extension for the above purpose. It is evident that if the functions of government are constantly enlarged, and the increasing costs are thrown upon the large incomes, a transition to the socialistic state will be eventually accomplished, and we may be well on the way toward it before many people comprehend that a revolution is taking place.

Well-intentioned people are led to support this program upon the general theory that these great incomes are too large to be devoted to the pleasure and benefit of the owners, but should be used, or at least divided, for the benefit of the community. They fail to see the vital and fundamental fact that these large incomes are chiefly used for public purposes now. Only a small portion of these incomes is consumed by the owners and their dependents; the larger part is re-invested productively, which means that it is devoted to enlarging and improving the industrial equipment by which the entire community is served. Such investments are the propelling force by which the progress of society is carried forward.

We think of income in terms of money, but the gains of a people from year to year, in an economic sense, are in tangible things, and of two classes. They are either in consumable things which minister directly to comfort and pleasure, or in additions to the equipment for producing these things. Each individual actually withdraws from the total income of the community simply what he consumes or uses upon himself. That which he invests in productive equipment is not devoted to himself. The title may be in him, but the plant is working for the public. All of the benefits of this industrial plant come out in the flow of products, and the real distribution of income is there, and not in the ownership of the equipment.

However miserly and grasping the owners of capital may be, they cannot invest it in industry except for the satisfaction of public wants and when the investment is never withdrawn, and the proceeds are reinvested over and over for the same purpose, it is as truly devoted to public use as though the title was passed to public officials. For what better could public officials do with it?

Indeed, the whole issue comes at last to the question, whether these fortunes, and the incomes from them, will be most economically and effectively handled by the men who have made the fortunes or by the changing public officials into whose hands it is proposed to place them.

It is not probable that income taxation will be carried far enough at present to actually curtail anybody's expenditures upon his own person or household; it will simply reduce that portion which is available for productive investment, or, in other words, the portion devoted to public purposes.

This statement is directed against the confiscatory purpose which prompts a large part of the agitation for increased super-taxes upon large incomes. Taxation to meet the necessary expenses of government, of course, is proper, and the principle that those who can pay without sacrifice should not only pay in proportion to their property holdings but more, when reasonably interpreted, is a sound one. Our entire system of taxation is very light upon the poor. The customs duties are levied mainly upon articles consumed by well-to-do people, and the Federal government's internal taxation, although yielding large sums, is upon articles that are not necessaries. Local taxes are levied mainly upon real estate. There is no serious objection to a moderately graduated income tax, for the purpose of raising necessary revenues, so long as the distribution of taxation is broad enough to insure a general interest in the proper and economical administration of the government. A government from which all derive benefits and in which all participate should certainly have some degree of support from all, not only as a matter of right, but because no proper restraint upon expenditures is otherwise conceivable.

Cattle Paper.

Mr. Beverly D. Harris, Vice-President of the National City Bank of New York, delivered an address on the 9th ult., before the Kansas Live Stock Association at Wichita, from which a few extracts are given below. The production of beef is one of the must important industries of the country, viewed from the standpoint of either producer or consumer, and Mr. Harris, from his long experience as a banker in Texas, is thoroughly familiar with every phase of it. He said in part:

For the last two years the country as a whole has been blessed with large crops of feed and forage, abundant stock water, and exceptionally good average conditions of all sorts. There had been declining production and increasing consumption for a number of years and after the first shock of the war the indications that this country would soon enter into a period of prosperity and greatly enlarged domestic consumption, and would be called on heavily from abroad to supply the requirements of Europe —forecasting high prices—were a perfectly natural incentive to widespread stocking up, and it was very opportune, at a time when such large quantities of feed and forage were being produced. The demand for stock cattle for breeding purposes; for canners to supply the European armies; for cattle exported on the hoof, and finished beef for domestic and export consumption, have under the natural laws of demand and supply, put up prices very high. During the past year money has been in greater abundance and at average lower rates than ever before in our history. In fact multiplied millions of dollars avail-

able for commercial loaning have accumulated to the point where they could not be profitably employed. These extraordinary money conditions have brought about an unprecedented demand for cattle paper, and in many cases from institutions which had not been accustomed to buy it, and with little practical information or discrimination in the purchase of such loans. * * *

It has been said that as the average price of beef cattle of all ages has more than doubled in the last seven years, it required twice as much money to finance the business. At the present time this is apparently an understatement of the real facts. It seems to be the consensus of opinion of many well informed authorities, that under the influence of the easy conditions which I have described, too many people with little or no financial or other responsibility are being encouraged by the loan of funds representing practically the purchase price, to buy cattle at the present high prices, creating a large volume of credits of an inflated character and very insecure foundations.

It is well known that with the high prices which have prevailed, feeding for the market has not turned out profitably in a very large number of instances, and there has not been the proper parity between the raw and finished product.

It is felt that the multiplication of cattle companies and too much competition for business is making credit too cheap, reducing margins of safety and promoting speculation. Too much speculative buying is forcing the average of prices up to a point that may be dangerous.

In respect to feeder loans, where the borrower has sufficient feed to put the cattle on full feed for a period of four to six months, the practice, as you know, is pretty general, to lend in many cases practically the purchase price of the cattle, regarding the feed as the margin, as a steer on full feed will gain from 1½ to 2½ pounds a day and should be finished for market on an average within four months. A thousand pound steer, let us say, would weigh around 1,200 pounds when ready for market, the difference in weight furnishing a very respectable margin. But if the borrower has no other margin in the transaction he should be able to make a statement indicating ample outside responsibility to fully protect all parties concerned. * * * In this connection I am pleased to see that some of the companies in the line of improved methods and good management are requiring their borrowers to furnish signed statements of their holdings and liabilities on the forms furnished and required by the Federal Reserve Banks. By all means I hope to see this practice become general, not only because it will help the sale of the paper in making it eligible for rediscount with the Federal Reserve Banks, in case of need, but for the still more important reason that it is one of the best safeguards that can be thrown around the business. In practically all commercial lines statements are invariably required as a basis of credit, and properly so. The livestock security is perishable and subject to loss or depreciation in value. A borrower who is not willing to make a statement of his affairs in seeking credit in the cattle business is not entitled to any more consideration in this respect than a borrower in any other line of business * * *

Prices on stockers, as we all know, are now extremely high. The following opinion of one of the recognized authorities in the cattle loan business is shared by many: "It is evident to me cattle are being held at too high prices. This refers particularly to cows and calves. In my judgment under the present prices of beef the ordinary calf, six to ten months old, should be sold for delivery at about the time it is a year old at from $20 to $25, per head, whereas the prise is now $30 to $35 per head."

The purchase of cattle paper in the large Eastern money markets is usually through cattle loan companies or banks, who make the loans and give their endorsements in connection. It is not often practicable to make direct loans, as this would involve too much loss of time, expense and trouble in making investigations, to be practicable or satisfactory. The purchasers naturally prefer some intermediary to make the purchases and look after the security during the life of the loan, and handle it in case of trouble. The desirability of the paper is based on the following consideration:

1. The financial responsibility and the strength of the connections, supporting the institution selling the paper, and the ability, experience and integrity and safe policies of the individuals concerned in its management. The knowledge that they make careful and thorough inspections and look closely after the security throughout the life of the loan.

2. The character and responsibility, financial and moral, of the borrower. In the cattle business, as in every other, intergrity and the moral risk are the first consideration. To quote from Mr. Hollings of the Inter-State National, Kansas City—"The brand on the man is more important than the brand on the cattle."

3. The character of the security, amount of margin, location, arrangements for feed, water and handling; transportation facilities; protection from weather and disease.

4. Liquidity. Loans which will be naturally liquidated within short time by movement of the cattle to market—grown steers in feed lots preferred. Stocker loans are oftentimes very safe and desirable, but this class of paper as a rule is slower in liquidating.

5. Loans on range cattle, calves and young stock are usually subject to more hazards than other loans. All conditions surrounding loans of this character should be looked into very carefully, with regard to safety.

6. The cattle mortgage laws of different states vary very materially in their provisions. They should be studied carefully and thoroughly understood. The original or certified copy of the mortgage should accompany the loan, showing filing and that all legal requirements have been complied with.

7. It is very important all the stock morgaged should have distinctive brands, and the location clearly designated, recorded in the mortgage, by which the cattle can at any time be immediately identified. The cattle should be in pastures enclosed with fences, and the mortgage should cover all cattle of any certain brand, or be a blanket mortgage covering all cattle of all brands belonging to the borrower. It is very unsafe to have mortgages held by different lenders on cattle of the same brand, running in the same pastures.

8. Many purchasers will not buy split loans. This is a matter requiring expert judgment and knowledge of conditions as under some circumstances serious complications may arise.

9. Renewals should be taken with careful attention to the laws of various states and with a full understanding of the circumstances warranting the renewal, and that the security is not being impaired or dissipated.

10. Loans on equities or undivided interests are undesirable.

Observing these tests in the selection, it has been my experience over a long period of time with various institutions, that there is no more desirable paper than cattle paper of the right sort. It can be liquidated in times of panic and tense money markets, affording relief when liquidation in many other lines is tied up. In times of financial crises the packing house and livestock interests are invaluable to the country, and afford quick relief through liquidation, and the bankers of the country should always bear this in mind and extend them all legitimate financial support to which they are entitled.

Condition of British Banks.

The London papers received recently give the statements published by the British joint stock banks showing their condition at the close of the year 1915. The aggregates for the principal items of twenty-nine London and provincial institutions, including the leading ones of the United Kingdom, are given below, and also the figures for the same items at the close of 1914 and before the war.

	June 30, 1914	Dec. 31, 1914	Dec. 31, 1915
Deposits	$4,220,000,000	$4,600,000,000	$4,985,000,000
Cash in hand and at Bank of England .	650,000,000	965,000,000	950,000,000
At Call and Short Notice.	530,000,000	425,000,000	357,000,000

Investment ...	740,000,000	845,000,000	1,655,000,000
Discounts and Advances ...	2,655,000,000	2,725,000,000	2,405,000,000

The most notable change shown is in the increase of investments, which since June 30, 1914, is about $900,000,000, and represents subscriptions to the war loans. This was to be expected, but the surprising feature of the statement is the reduction shown in the loan items. Money at call and short notice and the discounts and advances all show smaller figures than before the war. It was to be expected that with the great pressure upon the public to subscribe for the government loans, there would have been considerable borrowing at the banks for that purpose, but whatever there is of this does not equal the reduction in loans for business purposes. It will be remembered that the Bank of England at the outbreak of the war, took over from the joint stock banks a large amount of bills which could not be collected on account of war conditions; this action reduced their holdings of bills and at the same time increased their deposits. Their deposits also show an increase of $385,000,000 in the past year. The figures all reflect the fact that Great Britain to a great extent has financed the war by withdrawing investments from other countries.

In order to include the entire banking situation, the figures for the principal items of The Bank of England, and for the Treasury Exchequer notes for the same dates, are given below:

	July 29 1914	Dec. 30 1914	Dec. 29 1915
Gold	$183,357,029	$349,480,325	$256,692,150
Deposits	335,660,625	764,323,450	808,299,370
Gov't Securities	55,025,630	74,027,645	164,200,080
Other Securities	236,537,650	516,469,215	560,378,550
Exchequer Notes	....	192,390,820	515,625,495
Gold (for exchequer notes)	....	92,500,000	142,500,000

Canadian Affairs.

In the anuual budget speech of Sir Thomas White, Minister of Finance of Canada, delivered in Parliament a few days ago, he stated that the expenditures of the Dominion to January 1916, on account of the war had amounted to $158,000,000, and that $150,000,000 had been borrowed on this account. With 250,000 troops now enlisted and 500,000 enlistments authorized, he estimated that $250,000,000 would be required to finance the war during the fiscal year beginning April 1st. He stated that the war taxes imposed a year ago, which were calculated to yield $150,000,000, have in fact yielded $170,000,000. New war taxes, calculated to yield $25,000,000 to $30,000,000 are proposed, the noteworthy feature of these being levies upon business profits. Incorporated companies, except life insurance companies and those engaged in agricultural, are to be taxed one-fourth of their net profits in excess of 7 per cent. on their capital, and individuals and partnerships one-fourth of their profits in excess of 10 per cent. on their capital. These taxes will not apply to firms or companies of less than $50,000 capital unless they are manufacturing munitions.

The Dominion has a revenue surplus for the year now closing of about $45,000,000, and with the new taxes proposed it is going a long way toward financing the war out of current revenues, which is a very courageous and statesmanlike policy. The Treasury in carrying a gold reserve against the Dominion currency issues of $115,000,000 or 64.2% of the currency outstanding, and the Minister pledges that there will be no resort to issues of unsecured paper.

The foreign trade situation has shown a remarkable reversal. For the calendar year 1913 there was an adverse balance of $198,500,000; for 1914 there was an adverse balance of $70,300,000, and for 1915 there was a favorable balance of $201,700,000.

The big 1915 wheat crop and the manufacture of war supplies are responsible for this change. The trade balance is sufficient to take care of a full year's Canadian payments on interest account in London, with perhaps $50,000,000 over, so that both at home and abroad Canada's finances are in good shape.

The Canadian Bank of Commerce estimates that 40 per cent. of the grain crop is still in the farmers' hands. There is now full employment for labor, and trade and financial conditions are good. Returns from 46 Canadian cities show building permits in 1915 amounting to $34,500,000 against $97,600,000 in 1914. The Canadian government is continuing work upon the Quebec bridge, the Welland Canal, the Hudson Bay railway, and terminals and port works of considerable importance.

Report of Federal Reserve Board.

The second annual report of the Federal Reserve Board is in fact its first report covering one year. It reviews a year devoted to the formulation of policies, and we have already from time to time indicated that in our opinion the Board was proceeding wisely and laying good foundations. The reserve banks have done but little business, and this report expresses a sensible opinion when it says that, "any attempt of the Federal Reserve Banks to attract business by further reduction of their rates might only have produced a further depression of rates and increased the danger of inflation of credit without, at the same time, bringing additional business to the Federal Reserve Banks."

The Board indicates that the reserve banks will not wait for business to come to them from the member banks, and that they will enter the open market freely. "When prevailing money rates harden, as they may be expected to in time, it will be the policy of the Board to encourage the Federal Reserve Banks, through the active purchase of paper and the increase of investments, to release funds, and thereby steady rates at what it conceives to be the normal level."

The Board refers to some of the discussion which occurred last year as to the propriety of discounting paper which might arise out of purchases by belligerent powers in this market, and states that it has "reached the conclusion, supported by competent legal advice, that the purpose for which goods are sold or exported, or the use to which such goods are ultimately put, does not fall within its province or jurisdiction. If the transactions which have given rise to such sales or shipments are of a true com-

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEBRUARY 25, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	13,259	160.218	6,876	11,168	4.678	5,631	33,208	5,281	3,198	8,225	4,022	6,727	262,491
Gold Settlement Fund.....	3,344	6,499	6,269	11,193	10,580	5,776	10,769	2,621	4,049	2,575	9,501	3,239	76,435
Gold Redemption Fund...	3	236	50		320	319	200	1	30	98	245	10	1,512
Total gold reserves..	16,606	166,953	13,215	22,361	15,578	11,726	44,177	7,903	7,277	10,898	13,768	9,976	340,438
Legal tender notes, Silver certif's and Sub. coin....	133	7,657	4,812	1,387	119	125	1,665	304	453	183	835	5	17,678
Total Reserves......	16,739	174,610	18,027	23,748	15,697	11,851	45,842	8,207	7,730	11,081	14,603	9,981	358,116
Bills discounted, Members Commercial paper	183	167	199	217	6,646	4,482	1,984	802	915	2,070	4,741	421	22,827
Bill bought in open market	8.654	12.556	1,544	1,009	175	360	1.955	725	539	527	50	960	29,054
Total..................	8,837	12.723	1,743	1.226	6,821	4 842	3.939	1,527	1,454	2.597	4.791	1,381	51.881(c)
Investment U. S. Bonds...	983		3,465	3,621	1,288	43	6.252	3,339	1,797	4,513	1,295	3,035	29.632
Municipal Warrants......	3,461	9.629	2,989	3,115	83		2.587	698	902	470		1.469	25.403
Total Earning Assets	13 284	22.352	8,197	7.962	8,190	4,885	12,778	5,564	4,153	7,580	6,086	5,885	106.916
Federal Reserve Notes, net	1,124	13,230	135	563			1,806	386	976			5,573	23,793
Due from other F.R. Banks net..................	2,977		5,143	684	1,923	571	4,394	1,529	4,445	1,370		1,290	13.274(b)
All other resources........	169	3,941	169	340	59	1,094	546	4.258	119	258	289	159	11.401
TOTAL RESOURCES.....	34,293	214,133	31,671	33.297	25.869	18,401	65,366	19,944	17,423	20.289	20,978	22,888	513,500
LIABILITIES													
Capital Paid in............	5,158	11.092	5,257	5,945	3,341	2,416	6,652	2,786	2,555	2,999	2,752	3,944	54,897
Government Deposits.....	977	7,936	302	674	6,500	6,164	700	2,282	412	306	5,180	1,068	32,501
Reserve Deposits, net.....	28,158	184,817	26,112	26,678	11,330	8,358	58,014	14,876	14,456	15,867	10,024	17,876	416,566
Federal Reserve notes in circulation – Net Amt....					4,653	1,358				1,117	2,258		9,388(a)
Due to other F. R. Banks net		10,288									764		
All other Liabilities.......					45	105							150
TOTAL LIABILITIES	34.293	214.133	31,671	33,297	25.869	18,401	65,366	19.944	17.423	20.289	20.978	22,888	513.500

(a) Total Reserve notes in circulation, 171,368.
(b) After deduction of items in transit between Federal Reserve Banks, 13,274, the Gold Reserve against Net Liabilities is 76.5% and the cash reserve is 80.4%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 81.3%.
(c) Maturities of bills discounted and loans: within 10 days, 7,477; to 30 days, 11,750; to 60 days, 16,758; other maturities, 15,896; Total: 51,881.

mercial nature, if the basis upon which they rest is such as to comply with the requirements of the Federal Reserve Act, and if the maturity of the loan falls within the limitation of the law, then the paper growing out of them, no matter by whom or for what drawn, may at will be discounted by Federal Reserve Banks, and must be regarded as falling within the legitimate sphere of their operations."

It is noteworthy, as pertinent to the entire subject of financing our exports, whether by use of the Federal Reserve System or otherwise, that the Board should make this declaration:

"The Board, however, believes that the financing of the country's export trade is at the present time one of the most important financial problems with which the nation has to deal; and it is of the opinion that Federal Reserve Banks can not, even if they would, avoid the responsibility of assisting in this process of financing what legitimately and properly devolves upon them."

The Board admits that not much progress has been made in establishing the clearance system for checks, which is the difficult problem with which it has to deal. It is firm in its purpose, however, declaring that the reserve balances to be carried in the future by the reserve banks instead of the correspondent banks should perform the work of clearing and collecting the exchanges of the country.

Amendments are recommended as follows:

(1) National banks should be permitted to subscribe for and hold stock in banks organized to do business in foreign countries.

(2) Permission should be given for the issue of Federal Reserve notes direct to Federal Reserve banks for gold, the gold however, to still count as a part of the reserve which the bank is required to maintain against notes. This is a rather awkward proposition, made necessary by the fact that the Federal Reserve Banks do not issue their own, but government notes.

(3) The acceptance privilege should be extended to include domestic transactions secured by shipping documents or warehouse receipts.

(4) Permission should be granted to national banks to establish branch offices within the city, or within the county in which they are located.

(5) In order to enable member banks to readily acquire short accommodation, the reserve banks should be authorized to make advances for periods not exceeding 15 days, upon their promissory notes, secured by any collateral which could be rediscounted under the Federal Reserve Act, or upon government bonds.

(6) Certain further concessions to banks outside of central reserve cities are recommended in the matter of real estate loans, provided such loans do not exceed 25 per cent. of capital and surplus, or one-third of its time deposits.

Discount Rates.

Discount rates of each Federal Reserve Bank in effect Feb. 28th, 1916 are the same as those of Jan. 29th, 1916—excepting the Boston rate on Trade Acceptances has been reduced from 3½% to 3%; and the San Francisco rate on Agricultural and Live Stock Paper has been reduced from 6% to 5½%.